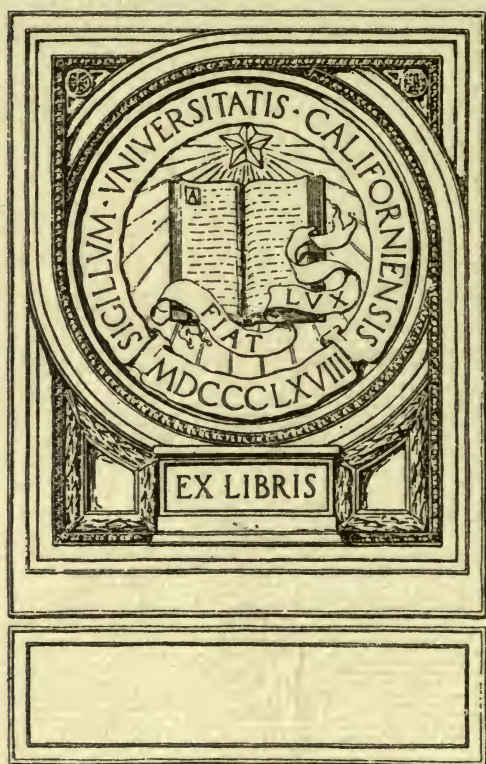


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AN ANALYSIS AND
INTERPRETATION
OF
THE FEDERAL
INCOME TAX LAW







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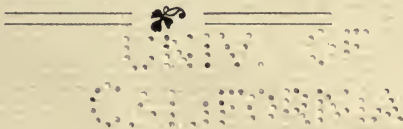
AN ANALYSIS AND
INTERPRETATION
OF THE
Federal Income Tax Law

BY

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AND

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1914

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Our purpose in presenting this analysis of the Federal Income Tax law is to make it as comprehensive as possible without entering too fully into a discussion of its provisions. What the public particularly desires to know is the scope of the law and how to comply with its requirements. We have appended hereto a copy of the Act and also important Treasury Regulations and forms under it. In this discussion reference will be made to the law by paragraphs and subdivisions of paragraphs.

The legislation which we are considering is section 2 of the Tariff Act approved October 3, 1913. Subdivision 1 of paragraph A imposes a normal tax of one per centum per annum upon the entire net income arising or accruing from all sources in the preceding calendar year to the individuals named. It also provides that said tax shall be levied, collected and paid annually upon the entire net income from all property owned and of every business, trade or profession carried on in the United States by persons residing elsewhere.

Paragraph B defines the sources of taxable income. In addition thereto other income is subject to the tax as follows:

- a—The share of the profits of a partnership to which any taxable partner would be entitled if the same were divided, whether divided or not.

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- b—Income derived from property acquired by gift, bequest, devise or descent.
- c—Income received as salary by any official of the United States (except the President and judges in office March first 1913) the governments of the District of Columbia, Porto Rico, and the Philippine Islands, or the political subdivisions thereof.
- d—Income which may arise or accrue within the preceding calendar year from any source not particularly mentioned.

A tax known and designated as an additional tax is imposed upon the income of the individuals named whenever their net income exceeds \$20,000. This tax is assessed under the provisions of subdivision 2 of paragraph A.

Taxable income consists of money, property, debts receivable, or anything else which has an ascertainable value, received as gains, profits and income from either of the sources hereinbefore referred to during the taxable year. A debt receivable which does not represent income derived from any of said sources is not taxable.

In making a return of net income subject to the tax the individual will exclude for the purpose of both the normal and additional tax that which has been received as follows:

- a—The proceeds of life insurance policies paid upon the death of the person insured, or payments made by or credited to the insured on life insurance endowment or annuity contracts upon the return thereof to the insured at maturity of the term mentioned in the contract.
- b—The value of property acquired by gift, bequest, devise or descent.
- c—The interest upon the obligations of a State or any political subdivision thereof; the United States or its possessions, or of the District of Columbia. Also the compensation of the President and others enumerated in the 3d subdivision of paragraph B.

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The income received during the taxable year from the following sources is exempt from the normal tax but must be included in the individual's return for the purposes of the additional tax:

- a—The dividends on the capital stock or from the net earnings of corporations and others enumerated in paragraph G, who pay the normal tax upon net income.
- b—The income upon which the normal tax has been withheld and paid or to be paid under provisions of paragraphs D and E, referred to in subdivision 2 of paragraph B.

Subject to the aforesaid exclusions the individual will make such deductions from his gross income as are applicable, as stated in subdivision 2 of paragraph B. From net income thus ascertained the exemption allowed in paragraph C, will be deducted. The income that remains is taxable.

Difficulty may arise in properly determining those deductions which relate to the exhaustion, wear and tear of property in business, worthless debts, and local assessments.

The necessary exhaustion, or depreciation, wear and tear of property in carrying on business will be determined in each case from the character and nature of its use. A proper allowance for the general depreciation of property arising from its use should not include cost of maintenance etc. A worthless debt must be charged off within the taxable year in order that the same may be deducted from taxable income. A debt of this description is one that is not collectible on account of the insolvency of the debtor. A local assessment is one assessed upon real estate to cover a proportionate cost of a public improvement which, to the extent of such assessment, enhances the value of the taxpayer's property.

It cannot be doubted that under the provisions of paragraph C taxable income to the amount of \$3000 belonging

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to every person, married or unmarried, is exempt from the tax. No other reasonable construction can be given the law. Marriage should not be construed as a voluntary surrender of a legal right to the Government of the United States. The law contemplates that the husband or wife, when living together, may claim the benefit of the additional exemption of \$1000 *from the aggregate taxable income of both in excess of \$3000*. No other construction of the law will square with reason and justice.

If the entire gross income of the individual from the sources mentioned does not exceed \$3000 he is not required to make a return of such income to the collector of internal revenue. If such income exceeds that amount he should make a return with claims for deduction and exemption. It may happen that after the individual has made the deductions and exemption, as stated, from his gross income that no apparent taxable income will remain, but he is not the sole judge of that matter, the collector will pass upon the return and may determine otherwise, if he does the individual may appeal to the Commissioner of Internal Revenue and introduce sworn testimony.

Under the provisions of paragraph D, the individual will make a return, under oath or affirmation, of his net income for aforesaid purposes, to the collector of internal revenue of the district in which he, the taxpayer, resides or has his principal place of business. In case a person resides in a foreign country such return will be made in the place where his principal business is carried on in the United States. In either case the return must be filed with the collector on or before March first of each year. The return must show the net income of the individual for the year which begins on the 1st day of January and ends on the 31st day of December following. For the year 1913, the net income will be computed from March 1st to December 31st both dates inclusive. Five-sixths only of the deduc-

tions in paragraph B and the exemption in paragraph C, for the taxable year of twelve months will be deducted from gross income for the ten months (except that in the case of dividends on the capital stock or from the net earnings of corporations which is made the 7th specific deduction in paragraph B, the total amount thereof should be deducted from gross income for the purposes of the normal tax, instead of five-sixths of such income).

The tax will be assessed, upon the net income so returned by the individual, by the Commissioner of Internal Revenue unless the same is increased by the collector of internal revenue. If the collector should make the increase the individual may submit the case to the Commissioner of Internal Revenue for review, as before stated. After the tax has been assessed a notice will be sent to the individual of the amount on or before the 1st day of June and the tax must be paid to the collector of internal revenue on or before the 30th day of said month. Under paragraph E the Commissioner is authorized to make a return for the individual, in case of his neglect or refusal so to do, and thereupon assess the tax upon it with penalty.

Those who act in a fiduciary capacity, as stated in paragraph D, are required to make a return and pay the tax for the individual they represent. They are governed by the same provisions of the law that relate to individuals in making such return. One of two or more persons acting in said capacity is authorized to make such return provided he files it in the district where such person resides or where the will or other instrument is recorded.

The net income from property owned and business carried on in the United States by persons residing elsewhere shall be computed upon the basis prescribed in paragraph B and that part of paragraph G relating to the computation of net income of corporations and others organized, created,

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or existing under the laws of foreign countries so far as applicable.

The normal tax will be withheld and paid at its source under the provisions of paragraphs D and E. Under the provisions of subdivision C of paragraph E the additional tax will not be assessed on income in the sourceholder's hands.

The words "trustee or debtor" will be used to designate those who withhold and pay the normal tax as enumerated in said paragraphs.

Whenever a trustee or debtor has in his hands income which belongs to another person from any of the sources mentioned in said paragraphs which has been received during the taxable year as fixed, determinable annual gains and profits in excess of \$3000, exclusive of dividends on the capital stock or from the net earnings of corporations and others, such trustee or debtor is authorized and required to deduct and withhold the normal tax upon such income and pay the same to the Collector of Internal Revenue. If such income is interest from corporate indebtedness the tax must be withheld and paid although such income is less than \$3000. The tax will not be withheld prior to November 1st 1913. Thereafter it will be withheld on income for the taxable year as hereinbefore stated.

Subdivision 2 of paragraph E provides that if the individual desires to claim the benefit of exemption C, where the tax is withheld and deducted at the source, he must, not less than 30 days prior to the 1st day of March each year file with the trustee or debtor a signed notice in writing claiming such benefit. After said notice has been filed the trustee or debtor will no longer withhold the tax upon the amount claimed by such exemption. Notice of an intention to claim the benefit of the deductions in paragraph B must be filed in the same manner. In addition to such notice,

however, the individual must file at the same time a true and correct return of his annual gains, profits and income from all sources with the trustee or debtor and the showing thus made will then become a part of the return to be made in behalf of the individual by the trustee or debtor on or before March 1st. Instead of filing the return in this manner the individual may file it directly with the collector of internal revenue for the district in which return is made or to be made for him under the same conditions as in other cases of personal return.

Concerning the time when the claim for exemption under paragraph C may be filed with the trustee or debtor there can be no doubt, as the exemption is a personal privilege it may be claimed at any time within the limitation stated. As to the earliest time when a claim for an allowance for the deductions in paragraph B may be made the law is not clear.

As the exemption and deductions are beneficial provisions it is believed that the purpose of their allowance, in the manner stated in said subdivision 2 of paragraph E, is to enable the individual to obtain payment of income in the hands of his trustee or debtor upon which tax is withheld as speedily as possible by permitting him to file with such trustee or debtor partial returns of net income, with claim for deductions, at any time before the expiration of the time mentioned, which return will relieve the trustee or debtor from further liability of withholding and paying the tax, to the Government, on income to the amount of deductions claimed in such partial returns. No treasury regulation has been issued relating to this subject, but without doubt one will be promulgated at an early day.

In case the individual fails to file a claim for the benefit of the exemption in paragraph C and the deductions in paragraph B with the trustee or debtor within the time

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stated he must make application for a refund of the tax, provided his entire income is in the hands of such trustee or debtor. If, however, he has other taxable income such claim for exemption and deductions will be considered in reference thereto.

The trustee or debtor is authorized to make a return for one who is disqualified from doing so on account of minority, insanity, illness or absence from the United States. One for whom a return has been made and the tax paid, or to be paid, is not required to make a return unless he has other taxable income; but only one deduction of \$3000 shall be made in the case of such person. Notwithstanding income in the hands of a trustee or debtor may not be taxable, still if it has been received from any of the sources mentioned in paragraph B, it may be taxable after the same has been paid to the individual.

Under subdivision 2 of Paragraph E the trustee or debtor will withhold and pay the tax on interest and dividend income from corporate indebtedness although the same is less than \$3000.

The provisions of this paragraph relate to the fixed, and determinable annual gains, profits and income derived from interest upon the obligations of domestic corporations, joint-stock companies or associations and insurance companies, whether payable annually or at longer or shorter periods, although such sum does not amount to \$3000, subject, however, to the provisions of the law requiring the normal tax to be withheld at its source and deducted from the annual net income of the individual and paid to the Government.

The normal tax will be deducted and withheld by such trustee or debtor from coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries, and upon foreign mortgages and like obligations (not payable in the United States). The tax will also be

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deducted and withheld from coupons etc. for or in payment of dividends upon the stock or interest upon the obligations of foreign corporations, associations and insurance companies engaged in business in foreign countries, although such interest or dividend does not exceed \$3000: provided that in each case the person to whom such interest or dividend is payable is subject to the tax under the provisions of Paragraph A.

These provisions which require the tax to be withheld from coupons etc. drawn and payable for such interest and dividends (not made payable in the United States) relate to a bank, or person who shall sell or otherwise realize or obtain the money in payment of such coupons etc. They also apply to any person (not in the United States) who shall obtain payment of such interest or dividend in behalf of a person subject to the tax thereon; and also to any dealer in such coupons who shall purchase the same for any such interest or dividend (not payable in the United States) otherwise than from a licensed banker of another dealer in such coupons. It will be observed that the last clause of this subdivision of paragraph E extends the benefit of the deductions and exemption in paragraphs B and C to the individual subject to the tax. Before a bank, corporation, or person can undertake as a matter of business or profit the collection of foreign payments of interest or dividends by means of coupons etc. a license will have to be obtained from the Commissioner of Internal Revenue.

When a coupon or other evidence of the interest indebtedness of a domestic corporation etc. is presented to a bank or other collecting agency for collection, the owner of such coupon must attach thereto a certificate of ownership with a claim for exemption under paragraph C. The bank or collecting agency will thereupon forward said certificate with coupon to the trustee or debtor who, if such owner's

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net income does not exceed the amount of the exemption claimed, will remit to such bank the amount of such coupon in full. If such owner's income exceeds, from said source, the exemption claimed the trustee or debtor will withhold and pay the normal tax on such excess, unless, under proper regulations of the Treasury Department, the individual may be allowed the benefit of deductions in paragraph B in the manner hereinbefore pointed out.

The bank or collecting agency may, however, attach its own certificate to such coupon; if this is done it will detach the owner's certificate therefrom and send the same direct to the Commissioner of Internal Revenue. If a coupon is presented for collection unaccompanied by a certificate of ownership and claim for exemption, as stated, the bank or collecting agency to whom presented will deduct the normal tax thereon and forward to the trustee or debtor the coupon with its certificate whereupon the trustee or debtor will be relieved from the payment of said tax thereon. In such a case the bank or collecting agency as a withholder of the tax will make return to the collector of internal revenue.

In order to classify income upon which the normal tax is to be withheld and paid, and that upon which the tax is not to be withheld and paid we will state the same as follows:

The tax will be withheld on income:

- a—When the net income of the individual from fixed, determinable annual gains and profits from the sources mentioned in Paragraphs D and E, exceeds \$3000 for any taxable year or such portion of the year 1913, as is hereinbefore stated.
- b—When such income is for interest on the indebtedness of domestic corporations and interest and dividends of foreign corpora-

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tions mentioned in subdivision 2 of Paragraph E, although the same is less than \$3000.

The tax will not be withheld on income:

- a—When the income, so far as applicable, is of the same character as that excluded by the individual in making his individual return as hereinbefore stated.
- b—When the income received is interest on a certificate of deposit, or upon a deposit in a bank or banking institution. (See T. D. 1893.)
- c—When the income is not fixed, determinable and annual, but is received incidentally as a gain or profit for some special service or transaction.
- d—When the net income (except in the case of interest on all corporate indebtedness and dividends on foreign corporate indebtedness as herein stated) does not exceed \$3000 for any taxable year, or for such portion of the year 1913, as before stated.

Under the provisions of Paragraph G the normal tax will be levied upon the entire net income arising or accruing from all sources during the preceding calendar year to corporations and others organized in the United States, not including partnerships: If organized, authorized, or existing under the laws of a foreign country, then upon the net income accruing from business transacted and capital invested within the United States during such year.

Under subdivision C a return is to be made by the corporations and others enumerated in said paragraph on or before the first day of March 1914, and upon the first day of said month annually thereafter, or in case of a day designated by such corporation within sixty days after the

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close of its fixed year and each year thereafter. In case of a foreign corporation the return is to be made in the place where its principal business is located in the United States.

Such return must be made under the oath or affirmation of the president, vice president or other principal officer, and its treasurer or assistant treasurer, to the collector of internal revenue for the district in which it has its principal place of business. Subject to the following exclusions, the return shall set forth:

- First— The total amount of its paid up capital stock outstanding, or if no capital stock its capital employed in business at the close of the year.
- Second—The total amount of its bonded and other indebtedness at the close of the year.
- Third— The gross amount of its income received during the year from all sources, including dividends on the capital stock or from the net earnings of corporations, taxable on their net income. If the corporation is organized under the laws of a foreign country, the amount of its income received within the year from the business transacted and capital invested in the United States must be stated.

There shall be excluded, in said return, from the gross income the following income received during said year:

- a—The interest received upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions, or of the District of Columbia.
- b—The income received from any public utility by any State, Territory, or the District of Columbia or any political subdivision of either,

or accruing to the Philippine Islands, or Porto Rico, or any political subdivision of the same. Under Par. G.

- c—The income received by agricultural or horticultural organizations; mutual savings banks not having a capital stock represented by shares; fraternal beneficiary societies; orders or associations operating under the lodge system and providing for the payment of life, sick, accident and other benefits to members of such societies, orders or associations and others enumerated in Paragraph G, that are not organized for profit, all of which are exempt from the tax under said paragraph.

From the gross income ascertained, there shall be deducted the following allowances in order to ascertain net taxable income as stated in subdivision (b) of Paragraph G:

- First— All the ordinary and necessary expenses paid within the year in the maintenance and operation of its properties and business, including rentals and other payments required to be made as a condition to the continued use or possession of its property.
- Second—All losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear, and tear of property, if any; and in case of mines a reasonable allowance for depletion of ores and all other natural deposits, not exceeding 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in the case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than

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dividends paid within the year on policy and annuity contracts.

Third— The amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding one-half of the interest-bearing indebtedness and its paid up capital stock outstanding at the close of the year, or if no capital stock the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year. In the case of indebtedness wholly secured by collateral the subject of sale in ordinary business of such corporation, joint stock company or association, the total interest secured and paid by such company, corporation, or association within the year on any such indebtedness may be deducted as a part of its expense of doing business. That in case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed. Banks, banking associations, loan and trust companies may also deduct the interest paid within the year on deposits, or on moneys received for investment and secured by interest-bearing certificates of indebtedness.

Fourth— All sums paid within the taxable year for taxes imposed under authority of the United States, or of any State or Territory thereof, or imposed by the Government of any foreign country.

In the case of corporations joint-stock companies or associations, or insurance companies organized, or existing

under the laws of a foreign country such net income shall be ascertained by making the same deductions that are applicable to domestic corporations, except that the same will be applied only to the business and property of such corporation in the United States. This statement is made, however, with the following qualifications: That the amount of interest to be deducted shall be the amount accrued and paid within the year on corporate indebtedness to an amount of such indebtedness not exceeding the proportion of one-half of the sum of its interest bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock the capital employed in the business at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States.

In the case of foreign or domestic assessment insurance companies the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds, and therefore are not taxable.

Mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all sources plus such portions of premium deposits as are retained by the companies for purposes other than payment of losses and expenses and insurance reserves.

Mutual marine insurance companies shall include in their gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts paid to

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policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof.

Life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to him, or treated as an abatement of premium of such individual policyholder within the year.

All of the foregoing provisions which relate to domestic mutual life insurance companies, mutual fire insurance companies and mutual marine insurance companies, are applicable to foreign companies but apply only to the business done in the United States.

The tax herein imposed upon corporations shall be upon their entire net income accruing within each preceding calendar year ending December 31st: Provided however that for the months of January and February 1913, the tax shall be only one-sixth of the entire net income of such corporation etc. ascertained in the manner hereinbefore stated in Par. G. Any corporation, joint-stock company or association or insurance company subject to this tax may designate the last day of any month in any year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as hereinbefore provided for the year ending on the day so designated in the year preceding the date of assessment, instead of upon the basis of the net income for the calendar year preceding the date of assessment. Notice must be given the collector of the designation of such day not later than 30 days prior to the first day of March each year.

As soon as the return of a corporation has been received by the collector of internal revenue he will transmit the same to the Commissioner of Internal Revenue for the pur-

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pose of the assessment of the tax thereon. Notice will be sent to such corporation of the amount of the tax on or before the first day of June each year and the tax must be paid on or before the 30th day of such month. In those cases where there has been a day designated by the corporation as the close of the fiscal year the tax due under said assessment shall be paid within one hundred and twenty days after the date upon which the corporation is required to file a list or return of income for assessment.

The Act approved August 5, 1909 relative to the imposition of an excise tax upon corporations has been repealed and re-enacted in Section 4 of the Tariff Act approved October 3, 1913, which act abolishes the specific deduction of \$5000; but permits income derived from the obligations of the United States or its possessions, or of any State, or a political subdivision thereof, or of the District of Columbia to be deducted in the ascertainment of net income subject to the normal tax.

The provisions of the Act of August 5, 1909 shall remain in force for the collection of the excise tax for the year 1912; but for the year 1913, it shall not be necessary to make more than one return and assessment for all the taxes imposed herein upon said corporations, joint-stock companies or associations and insurance companies either by way of income or excise, which return shall be made at the times and in the manner provided in the Act of October 3, 1913.

The word State or United States, when used in this Act shall be construed to include any Territory, Alaska, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

Penalties are provided for a failure to comply with the provisions of the act as follows:

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Under Paragraph E, a penalty is imposed for a neglect or refusal to make a return or for one fraudulently made.

Under subdivision 2 of said Paragraph a penalty of \$300 is imposed upon the individual for falsely stating a material fact in reference to a claim for exemption under Paragraph C.

Under the provisions of Paragraph F, it is provided: "That if any person corporation joint-stock company, association or insurance company liable to make a return or to pay the tax aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, such person shall be liable to a penalty of not less than \$20 nor more than \$1000. Any person or any officer of any corporation required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this Act to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2000 or be imprisoned not exceeding one year or both, at the discretion of the court."

Under subsection c, of Paragraph G, a penalty is imposed for a neglect or refusal, to make a return by a corporation or for one fraudulently made. And under Subdivision d, of said Paragraph a penalty of \$1000 is imposed upon corporations, joint-stock companies or associations or insurance companies for a refusal or neglect to make a return at the time or times specified in each year, or for a fraudulent or false return.

If any person shall be compelled to pay a tax on his return which was unlawfully assessed and collected, or excessive in amount, he may file his claim for refund of such tax with the collector under regulations made and provided in such cases by the Secretary of the Treasury, under the provisions of Section 3220 of the Revised Statutes of the United States. If relief is denied by the Commissioner of

Internal Revenue, or if such officer fails to render a decision on said claim in six months from the date of its submission, the courts are open to the taxpayer to obtain a judgment against the United States or the collector for the amount of said tax wrongfully collected.

The payment of the tax illegally assessed should be made under protest and must not be a voluntary one, but made under duress, that is, under threat to distrain and sell the taxpayer's property unless such payment is made. The reasons for the protest should be stated therein and, after being dated and signed by the taxpayer, handed to the collecting officer and a copy thereof retained.

Under Treasury Decision 1934, of January 16, 1914, in all cases herein mentioned where the tax is levied upon income in excess of \$3000 for the taxable year the tax will be assessed upon such income if the same is \$2500 or more for the ten months from March 1st to December 31, 1913.

This analysis and interpretation of the income tax law comprehends all Treasury Regulations and decisions to January 16, 1914.

**INCOME TAX LAW
OF
OCTOBER 3, 1913**

SECTION II.

A. Subdivision 1. That there shall be levied, assessed, collected and paid annually upon the entire net income arising or accruing from all sources in the preceding calendar year to every citizen of the United States, whether residing at home or abroad, and to every person residing in the United States, though not a citizen thereof, a tax of 1 per centum per annum upon such income, except as hereinafter provided; and a like tax shall be assessed, levied, collected, and paid annually upon the entire net income from all property owned and of every business, trade, or profession carried on in the United States by persons residing elsewhere.

Subdivision 2. In addition to the income tax provided under this section (herein referred to as the normal income tax) there shall be levied, assessed, and collected upon the net income of every individual an additional income tax (herein referred to as the additional tax) of 1 per centum per annum upon the amount by which the total net income exceeds \$20,000 and does not exceed \$50,000, and 2 per centum per annum upon the amount by which the total net income exceeds \$50,000 and does not exceed \$75,000, 3 per centum per annum upon the amount by which the total net income exceed \$75,000 and does not exceed \$100,000, 4 per centum per annum upon the amount by which the total net income exceeds \$100,000 and does not exceed \$250,000, 5 per centum per annum upon the amount by which the total net income exceeds \$250,000 and does not exceed \$500,000,

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and 6 per centum per annum upon the amount by which the total net income exceeds \$500,000. All the provisions of this section relating to individuals who are to be chargeable with the normal income tax, so far as they are applicable and are not inconsistent with this subdivision of paragraph A, shall apply to the levy, assessment, and collection of the additional tax imposed under this section. Every person subject to this additional tax shall, for the purpose of its assessment and collection, make a personal return of his total net income from all sources, corporate or otherwise, for the preceding calendar year, under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. For the purpose of this additional tax the taxable income of any individual shall embrace the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies, or associations however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint-stock company, or association, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint-stock company, or association shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same if distributed.

B. That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a tax-

able person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any lawful business carried on for gain or profit, or gains or profits and income derived from any source whatever, including the income from but not the value of property acquired by gift, bequest, devise, or descent: *Provided*, That the proceeds of life insurance policies paid upon the death of the person insured or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon surrender of contract, shall not be included as income.

That in computing net income for the purpose of the normal tax there shall be allowed as deductions: First, the necessary expenses actually paid in carrying on any business, not including personal, living, or family expenses; second, all interest paid within the year by a taxable person on indebtedness; third, all national, State, county, school, and municipal taxes paid within the year, not including those assessed against local benefits; fourth, losses actually sustained during the year, incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise; fifth, debts due to the taxpayer actually ascertained to be worthless and charged off within the year; sixth, a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per centum of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or better-

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ments, made to increase the value of any property or estate; (seventh, the amount received as dividends upon the stock or from the net earnings of any corporation, joint stock company, association, or insurance company which is taxable upon its net income as hereinafter provided;) eighth, the amount of income, the tax upon which has been paid or withheld for payment at the source of the income, under the provisions of this section, provided that whenever the tax upon the income of a person is required to be withheld and paid at the source as hereinafter required, if such annual income does not exceed the sum of \$3,000 or is not fixed or certain, or is indefinite, or irregular as to amount or time of accrual, the same shall not be deducted in the personal return of such person.

The net income from property owned and business carried on in the United States by persons residing elsewhere shall be computed upon the basis prescribed in this paragraph and that part of paragraph G of this section relating to the computation of the net income of corporations, joint-stock and insurance companies, organized, created, or existing under the laws of foreign countries, in so far as applicable.

That in computing net income under this section there shall be excluded the interest upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been elected, and of the judges of the supreme and inferior courts of the United States now in office, and the compensation of all officers or employees of a State or any political subdivision thereof except when such compensation is paid by the United States Government.

C. That there shall be deducted from the amount of the net income of each of said persons, ascertained as provided herein, the sum of \$3,000, plus \$1,000 additional if the person making the return be a married man with a wife living with him, or plus the sum of \$1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this addi-

tional exemption of \$1,000 be deducted by both a husband and a wife: *Provided*, That only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together.

D. The said tax shall be computed upon the remainder of said net income of each person subject thereto, accruing during each preceding calendar year ending December thirty-first: *Provided, however*, That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be computed on the net income accruing from March first to December thirty-first, nineteen hundred and thirteen, both dates inclusive, after deducting five-sixths only of the specific exemptions and deductions herein provided for. On or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, a true and accurate return, under oath or affirmation, shall be made by each person of lawful age, except as hereinafter provided, subject to the tax imposed by this section, and having a net income of \$3,000 or over for the taxable year, to the collector of internal revenue for the district in which such person resides or has his principal place of business, or, in the case of a person residing in a foreign country, in the place where his principal business is carried on within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources and from the total thereof, deducting the aggregate items or expenses and allowance herein authorized; guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations, or associations acting in any fiduciary capacity, shall make and render a return of the net income of the person for whom they act, subject to this tax, coming into their custody or control and management, and be subject to all the provisions of this section which apply to individuals: *Provided*, That a return made by one or two or more joint guardians, trustees, executors, administrators, agents, receivers, and conservators, or other persons acting in a fiduciary

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capacity, filed in the district where such person resides, or in the district where the will or other instrument under which he acts is recorded, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph; and also all persons, firms, companies, copartnerships, corporations, joint-stock companies or associations, and insurance companies, except as hereinafter provided, in whatever capacity acting, having the control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income of another person subject to tax, shall in behalf of such person deduct and withhold from the payment an amount equivalent to the normal income tax upon the same and make and render a return, as aforesaid, but separate and distinct, of the portion of the income of each person from which the normal tax has been thus withheld, and containing also the name and address of such person or stating that the name and address or the address, as the case may be, are unknown: *Provided*, That the provision requiring the normal tax of individuals to be withheld at the source of the income shall not be construed to require any of such tax to be withheld prior to the first day of November, nineteen hundred and thirteen: *Provided further*, That in either case above mentioned no return of income not exceeding \$3,000 shall be required: *Provided further*, That any person carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of a partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid, under the provisions of this section, and any such firm, when requested by the Commissioner of Internal Revenue, or any district collector, shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same, if distributed: *Provided further*, That persons liable for the normal income tax only, on their own account or in behalf of another, shall not be required to make return of the income derived from dividends on the capital stock or from the net earnings of

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corporations, joint-stock companies or associations, and insurance companies taxable upon their net income as hereinafter provided. Any person for whom return has been made and the tax paid, or to be paid as aforesaid, shall not be required to make a return unless such person has other net income, but only one deduction of \$3,000 shall be made in the case of any such person. The collector or deputy collector shall require every list to be verified by the oath or affirmation of the party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. If dissatisfied with the decision of the collector, such person may submit the case, with all the papers, to the Commissioner of Internal Revenue for his decision, and may furnish sworn testimony of witnesses to prove any relevant facts.

E. That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amounts for which they are respectively liable on or before the first day of June of each successive year, and said assessments shall be paid on or before the thirtieth day of June, except in cases of refusal or neglect to make such return and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of tax unpaid, and interest at the rate of 1 per centum per month upon said tax from the time the same became due,

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except from the estates of insane, deceased, or insolvent persons.

All persons, firms, copartnerships, companies, corporations, joint-stock companies or associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual gains, profits, and income of another person, exceeding \$3,000 for any taxable year, other than dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations subject to like tax, who are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district, are hereby authorized and required to deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this section, and shall pay to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax. In all cases where the income tax of a person is withheld and deducted and paid or to be paid at the source, as aforesaid, such person shall not receive the benefit of the deduction and exemption allowed in paragraph C of this section except by an application for refund of the tax unless he shall, not less than thirty days prior to the day on which the return of his income is due, file with the person who is required to withhold and pay tax for him, a signed notice in writing claiming the benefit of such exemption and thereupon no tax shall be withheld upon the amount of such exemption: *Provided*, That if any person for the purpose of obtaining any allowance or reduction by virtue of a claim for such exemption, either for himself or for any other person, knowingly makes any false statement or false or fraudulent representation, he shall be liable to a penalty of \$300; nor shall any person under the foregoing

conditions be allowed the benefit of any deduction provided for in subsection B of this section unless he shall, not less than thirty days prior to the day on which the return of his income is due, either file with the person who is required to withhold and pay tax for him a true and correct return of his annual gains, profits, and income from all other sources, and also the deductions asked for, and the showing thus made shall then become a part of the return to be made in his behalf by the person required to withhold and pay the tax, or likewise make application for deductions to the collector of the district in which return is made or to be made for him: *Provided further*, That if such person is a minor or an insane person, or is absent from the United States, or is unable owing to serious illness to make the return and application above provided for, the return and application may be made for him or her by the person required to withhold and pay the tax, he making oath under the penalties of this Act that he has sufficient knowledge of the affairs and property of his beneficiary to enable him to make a full and complete return for him or her, and that the return and application made by him are full and complete: *Provided further*, That the amount of the normal tax hereinbefore imposed shall be deducted and withheld from fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods, although such interest does not amount to \$3,000, subject to the provisions of this section requiring the tax to be withheld at the source and deducted from annual income and paid to the Government; and likewise the amount of such tax shall be deducted and withheld from coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged

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in business in foreign countries; and the tax in each case shall be withheld and deducted for and in behalf of any person subject to the tax hereinbefore imposed, although such interest, dividends, or other compensation does not exceed \$3,000, by any banker or person who shall sell or otherwise realize coupons, checks, or bills of exchange drawn or made in payment of any such interest or dividends (not payable in the United States), and any person who shall obtain payment (not in the United States), in behalf of another of such dividends and interest by means of coupons, checks, or bills of exchange, and also any dealer in such coupons who shall purchase the same for any such dividends or interest (not payable in the United States), otherwise than from a banker or another dealer in such coupons; but in each case the benefit of the exemption and the deduction allowable under this section may be had by complying with the foregoing provisions of this paragraph.

All persons, firms, or corporations undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to ascertain and verify the due withholding and payment of the income tax required to be withheld and paid as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and any person who shall knowingly undertake to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.

Nothing in this section shall be construed to release a taxable person from liability for income tax, nor shall any contract entered into after this Act takes effect be valid in regard to any Federal income tax imposed upon a person liable to such payment.

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The tax herein imposed upon annual gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury.

The provisions of this section relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon individuals.

F. That if any person, corporation, joint-stock company, association, or insurance company liable to make the return or pay the tax aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, such person shall be liable to a penalty of not less than \$20 nor more than \$1,000. Any person or any officer of any corporation required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

G. (a) That the normal tax hereinbefore imposed upon individuals likewise shall be levied, assessed, and paid annually upon the entire net income arising or accruing from all sources during the preceding calendar year to every corporation, joint-stock company or association, and every insurance company, organized in the United States, no matter how created or organized, not including partnerships; but if organized, authorized, or existing under the laws of any foreign country, then upon the amount of net income accruing from business transacted and capital invested within the United States during such year: *Provided, however,* That nothing in this section shall apply to labor, agricultural, or horticultural organizations, or to mutual savings banks not having a capital stock represented by shares, or to fraternal beneficiary societies, orders, or associations operating under the lodge system or for the exclusive benefit of the members of a fraternity itself oper-

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ating under the lodge system, and providing for the payment of life, sick, accident, and other benefits to the members of such societies, orders, or associations and dependents of such members, nor to domestic building and loan associations, nor to cemetery companies, organized and operated exclusively for the mutual benefit of their members, nor to any corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual, nor to business leagues, nor to chambers of commerce or boards of trade, not organized for profit or no part of the net income of which inures to the benefit of the private stockholder or individual; nor to any civic league or organization not organized for profit, but operated exclusively for the promotion of social welfare: *Provided further*, That there shall not be taxed under this section any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of Columbia, or any political subdivision of a State, Territory, or the District of Columbia, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided*, That whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, has, prior to the passage of this Act, entered in good faith into a contract with any person or corporation, the object and purpose of which is to acquire, construct, operate or maintain a public utility, no tax shall be levied under the provisions of this Act upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this section upon the part or portion of the said income to

which such person or corporation shall be entitled under such contract.

(b) Such net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint-stock company or association, or insurance company, received within the year from all sources, (first) all the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any; and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or

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credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year: *Provided*, That in case of indebtedness wholly secured by collateral the subject of sale in ordinary business of such corporation, joint-stock company, or association, the total interest secured and paid by such company, corporation, or association within the year on any such indebtedness may be deducted as a part of its expense of doing business: *Provided further*, That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; and in the case of a bank, banking association, loan, or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof, or imposed by the Government of any foreign country: *Provided*, That in the case of a corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by deducting from the gross amount of its income accrued within the year from business transacted and capital invested within the United States, (first) all the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property;

(second) all losses actually sustained within the year in business conducted by it within the United States and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any, and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual life insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding the proportion of one-half of the sum of its interest bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock, the capital employed in the business at the close of the year which the gross amount of its income for the year from

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business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: *Provided*, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof or the District of Columbia. In the case of assessment insurance companies, whether domestic or foreign, the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds.

(c) The tax herein imposed shall be computed upon its entire net income accrued within each preceding calendar year ending December thirty-first: *Provided, however*, That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be imposed upon its entire net income accrued within that portion of said year from March first to December thirty-first, both dates inclusive, to be ascertained by taking five-sixths of its entire net income for said calendar year: *Provided further*, That any corporation, joint-stock company or association, or insurance company subject to this tax may designate the last day of any month in the year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the date upon which its annual return shall be filed. All corporations, joint-stock companies or associations, and insurance companies subject to the tax herein imposed, computing taxes upon the income of the

calendar year, shall, on or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, and all corporations, joint-stock companies or associations, and insurance companies, computing taxes upon the income of a fiscal year which it may designate in the manner hereinbefore provided, shall render a like return within sixty days after the close of its said fiscal year, and within sixty days after the close of its fiscal year in each year thereafter, or in the case of a corporation, joint-stock company or association, or insurance company, organized or existing under the laws of a foreign country, in the place where its principal business is located within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, shall render a true and accurate return under oath or affirmation of its president, vice president, or other principal officer, and its treasurer or assistant treasurer, to the collector of internal revenue for the district in which it has its principal place of business, setting forth (first) the total amount of its paid-up capital stock outstanding, or if no capital stock, its capital employed in business, at the close of the year; (second) the total amount of its bonded and other indebtedness at the close of the year; (third) the gross amount of its income, received during such year from all sources, and if organized under the laws of a foreign country the gross amount of its income received within the year from business transacted and capital invested within the United States; (fourth) the total amount of all its ordinary and necessary expenses paid out of earnings in the maintenance and operation of the business and properties of such corporation, joint-stock company or association, or insurance company within the year, stating separately all rentals or other payments required to be made as a condition to the continued use or possession of property, and if organized under the laws of a foreign country the amount so paid in the maintenance and operation of its business within the United States; (fifth) the total amount of all losses actually sustained during the year and not compensated by insurance or otherwise, stating

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separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; and in case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, all losses actually sustained by it during the year in business conducted by it within the United States, not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits

returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement or premium of such individual policyholder, within such year; (sixth) the amount of interest accrued and paid within the year on its bonded or other indebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid-up capital stock, outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of indebtedness not exceeding the amount of capital employed in the business at the close of the year, and in the case of a bank, banking association, or trust company, stating separately all interest paid by it within the year on deposits; or in the case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, interest so paid on its bonded or other indebtedness to an amount of such bonded or other indebtedness not exceeding the proportion of its paid-up capital stock outstanding at the close of the year, or if no capital stock, the amount of capital employed in the business at the close of the year, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States; (seventh)

the amount paid by it within the year for taxes imposed under the authority of the United States and separately the amount so paid by it for taxes imposed by the Government of any foreign country; (eighth) the net income of such corporation, joint-stock company or association, or insurance company, after making the deductions in this subsection authorized. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue.

All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall be paid on or before the thirtieth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and twenty days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, or after one hundred and twenty days from the date on which the return of income is required to be made by the taxpayer, and after ten days notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of the tax unpaid and interest at the rate of 1 per centum per month upon said tax from the time the same becomes due.

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(d) When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract thereof, showing the name and income of each such corporation, joint-stock company, association or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe.

If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid, shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall be liable to a penalty of not exceeding \$10,000.

H. That the word "State" or "United States" when used in this section shall be construed to include any Territory, Alaska, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

I. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three, and thirty-one hundred and seventy-six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

"SEC. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits,

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losses, expenditures, or any particular thereof, set forth or disclosed in any income return by any person or corporation, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or the amount or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office and be incapable thereafter of holding any office under the Government.

"SEC. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

"SEC. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, in case of a special tax, on or before the thirty-first day of July in each year, in case of income tax on or before the first day of March in each year, and in other cases before the day on which the taxes accrue, to make a list of return, verified by oath or affirmation, to the collector or a deputy collector of the district where located, of the articles or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Pro-*

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vided, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, articles or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid then and in that case it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath or affirmation by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by oath or affirmation. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is false or fraudulent, or contains any undervaluation or understatement, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books, at a time and

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place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects liable to tax or the returns thereof. The collector may summon any person residing or found within the State in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority which he might lawfully exercise in the district for which he was commissioned.

"SEC. 3176. When any person, corporation, company, or association refuses or neglects to render any return or list required by law, or renders a false or fraudulent return or list, the collector or any deputy collector shall make, according to the best information which he can obtain, including that derived from the evidence elicited by the examination of the collector, and on his own view and information, such list or return, according to the form prescribed, of the income, property, and objects liable to tax owned or possessed or under the care or management of such person or corporation, company or association, and the Commissioner of Internal Revenue shall assess all taxes not paid by stamps, including the amount, if any, due for special tax, income or other tax, and in case of any return of a false or fraudulent list or valuation intentionally he shall add 100 per centum to such tax; and in case of a refusal or neglect, except in cases of sickness or absence, to make a list or return, or to verify the same as aforesaid, he shall add 50 per centum to such tax. In case of neglect occasioned by sickness or absence as aforesaid the collector may allow such further time for making and delivering such list or return as he may deem necessary, not exceeding thirty days. The amount so added to the tax shall be collected at the same time and in the same manner as the tax unless the neglect or falsity is discovered after the tax has been paid, in which case the amount so added shall be collected in the same manner as the tax; and the list or return so made and subscribed by such collector or deputy collec-

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tor shall be held prima facie good and sufficient for all legal purposes."

J. That it shall be the duty of every collector of internal revenue, to whom any payment of any taxes other than the tax represented by an adhesive stamp or other engraved stamp is made under the provisions of this section, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

K. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this section to appear to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

L. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this section, are hereby extended and made applicable to all the provisions of this section and the tax herein imposed.

M. That the provisions of this section shall extend to Porto Rico and the Philippine Islands: *Provided*, That the

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administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate internal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general governments, thereof, respectively: *And provided further*, That the jurisdiction in this section conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this section shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District of Columbia, Porto Rico and the Philippine Islands or the political subdivisions thereof.

N. That for the purpose of carrying into effect the provisions of Section II of this Act, and to pay the expenses of assessing and collecting the income tax therein imposed, and to pay such sums as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may deem necessary, for information, detection, and bringing to trial and punishment persons guilty of violating the provisions of this section, or conniving at the same, in cases where such expenses are not otherwise provided for by law, there is hereby appropriated out of any money in the Treasury not otherwise appropriated for the fiscal year ending June thirtieth, nineteen hundred and fourteen, the sum of \$800,000, and the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, is authorized to appoint and pay from this appropriation all necessary officers, agents, inspectors, deputy collectors, clerks, messengers and janitors, and to rent such quarters, purchase such supplies, equipment, mechanical devices, and other articles as may be necessary for employment or use in the District of Columbia or any collection district in the United States, or any of the territories thereof: *Provided*, That no agent paid from this appropriation shall receive compensation at a rate higher than that now received by traveling agents on accounts in the Internal Revenue Service, and no inspector shall receive a compensation higher

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than \$5 a day and \$3 additional in lieu of subsistence, and no deputy collector, clerk, messenger, or other employee shall be paid at a rate of compensation higher than the rate now being paid for the same or similar work in the Internal Revenue Service.

In the office of the Commissioner of Internal Revenue at Washington, District of Columbia, there shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, one additional deputy commissioner, at a salary of \$4,000 per annum; two heads of divisions, whose compensation shall not exceed \$2,500 per annum; and such other clerks, messengers, and employees, and to rent such quarters and to purchase such supplies as may be necessary: *Provided*, That for a period of two years from and after the passage of this Act the force of agents, deputy collectors, inspectors, and other employees not including the clerical force below the grade of chief of division employed in the Bureau of Internal Revenue in the city of Washington, District of Columbia, authorized by this section of this Act shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, under such rules and regulations as may be fixed by the Secretary of the Treasury to insure faithful and competent service, and with such compensation as the Commissioner of Internal Revenue may fix, with the approval of the Secretary of the Treasury, within the limitations herein prescribed: *Provided further*, That the force authorized to carry out the provisions of Section II of this Act, when not employed as herein provided, shall be employed on general internal-revenue work.

SECTION IV.

Par. S. That, except as hereinafter provided, sections one to forty-two, both inclusive, of an Act entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine, and all Acts and parts of Acts inconsistent with the provisions of

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this Act, are hereby repealed: *Provided*, That nothing in this Act shall be construed to permit any oaths to be demanded or fees to be charged except as provided in this Act or in section twenty-eight hundred and sixty-two of the Revised Statutes of the United States, nor to repeal or in any manner affect the following numbered sections of the aforesaid Act approved August fifth, nineteen hundred and nine, viz: Subsection twenty-nine of section twenty-eight and subsequent laws and amendments relating to the establishment and continuance of a Customs Court, subsection thirty of section twenty-eight, providing for additional attorneys, subsection twelve of section twenty-eight and subsequent provisions establishing a Board of General Appraisers of merchandise, sections thirty, thirty-one, thirty-two, thirty-three, and thirty-five, imposing an internal revenue tax upon tobacco, section thirty-six, providing for a tonnage duty, section thirty-nine, authorizing the Secretary of the Treasury to borrow on the credit of the United States to defray expenditures on account of the Panama Canal, section forty, authorizing the Secretary of the Treasury to borrow to meet public expenditures: *Provided further*, That all excise taxes upon corporations imposed for the year ending December thirty-first, nineteen hundred and twelve, shall be returned, assessed, and collected in the same manner, and under the same provisions, liens, and penalties as if section thirty-eight continued in full force and effect: *And provided further*, That a special excise tax with respect to the carrying on or doing of business, equivalent to 1 per centum upon their entire net income, shall be levied, assessed, and collected upon corporations, joint stock companies or associations, and insurance companies, of the character described in section thirty-eight of the Act of August fifth, nineteen hundred and nine, for the period from January first to February twenty-eighth, nineteen hundred and thirteen, both dates inclusive, which said tax shall be computed upon one-sixth of the entire net income of said corporations, joint stock companies or associations, and insurance companies, for said year, said net income to be ascertained in accordance with the provisions of subsection G of section two of this Act:

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Provided further, That the provisions of said section thirty-eight of the Act of August fifth, nineteen hundred and nine, relative to the collection of the tax therein imposed shall remain in force for the collection of the excise tax herein provided, but for the year nineteen hundred and thirteen it shall not be necessary to make more than one return and assessment for all the taxes imposed herein upon said corporations, joint stock companies or associations, and insurance companies, either by way of income or excise, which return and assessment shall be made at the times and in the manner provided in this Act; but the repeal of existing laws or modifications thereof embraced in this Act shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil case before the said repeal or modification; but all rights and liabilities under said laws shall continue and may be enforced in the same manner as if said repeal or modifications had not been made. Any offenses committed and all penalties or forfeitures or liabilities incurred prior to the passage of this Act under any statute embraced in or changed, modified, or repealed by this Act may be prosecuted or punished in the same manner and with the same effect as if this Act had not been passed. No Acts of limitation now in force, whether applicable to civil causes or proceedings or to the prosecution of offenses or for the recovery of penalties or forfeitures embraced in or modified, changed, or repealed by this Act shall be affected thereby so far as they affect any suits, proceedings, or prosecutions, whether civil or criminal, for causes arising or acts done or committed prior to the passage of this Act, which may be commenced and prosecuted within the same time and with the same effect as if this Act had not been passed.

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FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS STATING WHETHER OR NOT EXEMPTION IS CLAIMED UNDER PARAGRAPH C, SECTION 2, OF THE FEDERAL INCOME TAX LAW.

I do solemnly declare that I,, a citizen or resident of the United States,
and residing at, am the owner of \$..... bonds of the denominations
of \$..... each, Nos.
.....
.....
of the
(Give name of debtor.)
known as bonds,
(Describe the particular issue of bonds.)
from which were detached the accompanying coupons, due....., 191..., amounting to \$.....
or upon which there matured....., 191..., \$..... of registered interest.
I { do } now claim, with respect to the income represented by said interest, the benefit of a deduction of
{ do not } \$..... allowed under paragraph C, Section II, of the Federal income-tax law.

Name.....

Address.....

Date....., 191...

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CERTIFICATE TO BE FURNISHED BY ORGANIZATIONS NOT SUBJECT TO TAX ON INTEREST AT SOURCE.

I, (Give name.) of the a.....
 of (Give official position.) (Name of organization.)
 located at do solemnly declare that
 (Character of organization.) (State.) (Post-office address.)
 said is the owner of \$ bonds of the denomination
 (Give name of organization.)
 of \$ each, Nos.
 of the
 (Give name of debtor.)
 known as bonds,
 (Describe the particular issue of bonds.)
 from which were detached the accompanying coupons, due 191... amounting to
 \$ or upon which there matured 191... \$ of registered
 interest, and that under the provisions of the income-tax law of October 3, 1913, said interest is exempt from the
 payment of taxes collectible at the source, which exemption is hereby claimed.

Name (Official position.)
 Of (Name of organization.)
 Address (Post-office.)
 Date 191...

FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS WHEN NOT
ACCOMPANIED BY CERTIFICATE OF OWNERS.

I, of the
(Name.) (Official position.)
....., of do solemnly declare that said
(Bank or collecting agency.) (Address.)
.....has (or have) purchased or accepted for collection the accom-
(Collecting agency.)
panying coupons or interest orders amounting to \$....., and which represent interest matured on
\$..... of bonds of the.....and that.....
(Name of debtor.) (Collecting agency.)
received said coupons or orders for registered interest from
(Name of party from whom received.)
of....., and that no certificate of ownership accompanied said coupons or interest
(Address of said party.)
orders, and.....hereby acknowledges responsibility of withholding therefrom the
(Collecting agency.)
normal income tax of 1 per cent, in accordance with the regulations of the Treasury Department.

Name.....
(Collecting agency.)

By.....
(Signature of officer duly authorized to sign,
and his official position.)

Address.....
(Give full address.)

Date.....191...

FORM OF CERTIFICATE TO BE FILLED OUT AND SIGNED BY MEMBERS OF PARTNERSHIPS.

The following certificate should be used when coupons or interest orders are presented by citizens or residents of the United States for collection of interest on bonds, or other similar obligations, owned by the partnerships of which they are members:

I, , a member of the firm or partnership of do solemnly
of and residing at
(Give full address.)

do solemnly declare that the said partnership is the owner of \$..... bonds of the denomination of \$..... each, Nos.

of the
(Give name of debtor.)

known as bonds, from which were detached the accompanying interest coupons, due 191..., amounting to \$....., or upon which there matured 191..., \$. of registered interest, and that the name and address of said firm or partnership, and the names of the individual members thereof, and their places of residence, are as follows:

Names of partners:
.....
.....
.....
.....
.....
.....
.....
.....

Address:
.....
.....
.....
.....
.....
.....
.....

Name of partner signing:
Of firm of:
Address:
Date: 191....

FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS, DETACHED FROM BONDS OR OTHER OBLIGATIONS OWNED BY THOSE WHO ARE BOTH CITIZENS OR SUBJECTS, AND RESIDENTS OF FOREIGN COUNTRIES.

I do solemnly declare that I am not a citizen or resident of the United States of America, but a subject (or citizen) of....., and that I am the owner of \$...... bonds of the denomination of \$..... each, Nos..... known as.....
 (Give name of debtor corporation.)
 bonds,
 (Describe the particular issue of bonds.)
 from which were detached the accompanying coupons, due....., 191..., amounting to \$....., or upon which there matured....., 191..., \$..... of registered interest, and that being a nonresident foreigner, I am exempt from the income tax imposed on such interest by the United States Government under the law enacted October 9, 1913, and that no citizen of the United States, wherever residing, or foreigner residing in the United States, or any of its possessions, has any interest in said bonds, coupons, or interest.

Signature of owner of bonds (Give full name.)
 Date.....191...
 Address (Give full post office address.)

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FORM OF TEMPORARY CERTIFICATES WHICH MAY BE USED ONLY PRIOR TO NOVEMBER 16, 1913, SUBJECT TO SUBSTITUTION.

I (we) hereby certify that I am (we are) lawfully entitled to present for payment the accompanying coupons or interest orders amounting to \$..... (giving amount) representing interest matured on the following bonds..... (giving name of debtor and designating the description, style, and numbers of the bonds); that said coupons or interest orders came into my (our) possession unaccompanied by a certificate of ownership of said bonds, in any of the forms required by the regulations of the United States Treasury Department; and that the name and address of the owner of such bonds are as follows:.....
.....(give name and address of owner; if impossible to do this, so state).

Name of person, firm, or corporation presenting coupons:

.....

Address.....

THE FEDERAL INCOME TAX LAW

(T. D. 1892.)

Income tax.

Interest upon obligations of the United States or its possessions, or of any State, county, city, or any other political subdivision thereof, is not subject to income tax.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., November 6, 1913.

To collectors of internal revenue:

It has been called to the attention of this office that banks in certain sections are refusing to pay coupons for interest on bonds of States, counties, cities, or other political subdivisions of the United States, when such coupons are not accompanied by certificates of ownership, without deducting the normal income tax of 1 per cent, which the law and the regulations of this department require shall be deducted at the source in paying the interest on bonds of corporations, joint-stock companies or associations, and insurance companies.

Please inform all parties interested, giving the information wide publicity, that the income derived from the interest upon the obligations of a State, county, city, or any other political subdivision thereof, and upon the obligations of the United States or its possessions, *is not subject to the income tax*, and a certificate of ownership in connection with the coupons or registered interest orders for such interest will not be required.

The interest coupons should clearly show on their face whether they are issued by the United States or any political subdivision thereof. If, however, they do not clearly show this, then, of course, an ownership certificate should be required.

W. H. OSBORN, *Commissioner.*

ANALYSIS AND INTERPRETATION OF

(T. D. 1893.)

Income tax.

Income tax on the interest on bank deposits and bank certificates of deposit not to be withheld at the source.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., November 6, 1913.

To collectors of internal revenue:

Banks, bankers, trust companies, and other banking institutions receiving deposits of money are *not required* under the Treasury regulations (part 2), approved October 31, 1913, to withhold at the source the normal income tax of 1 per cent on the interest paid or accrued or accruing to depositors, whether on open accounts or on certificates of deposit; but all such interest, whether paid or accrued and not paid, must be included in his tax return by the person or persons entitled to receive such interest, whether on open account or on the certificate of deposit.

W. H. OSBORN, *Commissioner.*

Approved:

W. G. McADOO,
Secretary of the Treasury.

THE FEDERAL INCOME TAX LAW

(T. D. 1894.)

Income tax.

Income-tax ruling as to how and by whom certificates of ownership may be signed in cases where bonds of corporations, joint-stock companies or associations, and insurance companies are owned by nonresident aliens.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., November 12, 1913.

To collectors of internal revenue:

Coupons (or orders for registered interest) payable in the United States, representing the interest on bonds owned by nonresident aliens, *must be accompanied by the prescribed certificate*, Form 1004, as per Treasury regulations of October 25, 1913; but this certificate may be signed either by the owner himself (herself or themselves) or in behalf of the owner by a reputable bank or bankers, or other responsible collecting agency, certifying to the ownership of the bonds and giving the name and address of the bona fide nonresident and alien owners, and when such certificate is thus attached the normal tax of 1 per cent on such coupons or interest orders need not be withheld at the source by the debtor or collecting agency.

W. H. OSBORN, *Commissioner.*

Approved:

W. G. McADOO,
Secretary of the Treasury.

ANALYSIS AND INTERPRETATION OF

(TREASURY DECISION 1926.)

Income tax.

Regulations permitting text of certificates of ownership, 1004, 1014 and 1016, used by non-resident foreign individuals, partnerships and organizations, to be printed in foreign language directly under the English text of said certificates.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., December 30, 1913.

Certificates of ownership required to be filed with interest coupons or orders for registered interest by non-resident foreigners on Form 1004, by foreign partnerships on Form 1014, and by foreign organizations on Form 1016 shall be printed, as prescribed by regulations, in the English language, and directly under each line of the English text, on each of the above mentioned certificates, there may be printed the text of said certificate in a foreign language.

In executing these certificates, however, all blanks to be filled in, with amounts, shall be filled in using United States dollar values.

These certificates shall be of the same size as prescribed by regulations for all certificates of ownership.

W. H. OSBORN,
Commissioner.

Approved:
W. G. McADOO,
Secretary.

THE FEDERAL INCOME TAX LAW

(TREASURY DECISION 1928.)

Income tax.

Regulation prescribing additional forms on which to make returns of annual net income for the income tax.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., January 2, 1914.

The forms numbered and described below, in addition to those previously approved, are prescribed by this department for the purposes indicated in connection with the administration of the Federal income-tax law (sec. 2 of the act of Oct. 3, 1913):

Forms 1030, 1031, 1032, 1033, 1034, and 1035 are to be used by corporations in making their returns of annual net income, as follows: No. 1030 by insurance companies; No. 1031 by banks and other financial institutions (class A); No. 1032 by public service corporations (class B); No. 1033 by manufacturing corporations (class C); No. 1034 by mercantile corporations (class D); No. 1035 by miscellaneous corporations (class E).

Form 1040 is to be used by individuals, or their duly authorized agents, in making the personal return of annual net income.

Form 1041 is to be used by fiduciaries in making returns of annual net income in behalf of their beneficiaries and as withholding agents.

Form 1042 is the annual list return of withholding agents of taxes withheld by them on income other than that derived from corporate obligations.

Form 1043 is a monthly list return of taxes withheld on foreign income by licensed banks or collecting agents.

Form 1043a is the annual list return to be made by licensed banks and collecting agents of taxes withheld by them during the year on foreign items.

ANALYSIS AND INTERPRETATION OF

Form 1044 is a monthly list return of taxes withheld by the first bank or collecting agency receiving coupons or interest orders not accompanied by certificates of owners.

Form 1044a is the annual list return of taxes withheld during the year by the first bank or collecting agency receiving coupons or interest orders not accompanied by certificates of owners.

Form 23a will be used by collectors in listing, for assessment, the corporations showing net income upon which the tax is to be computed, this form to be prepared in duplicate.

Form 23b will be used by collectors in listing, for assessment, withholding agents, fiduciaries, etc., and individuals who return a taxable income.

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved:

W. G. McADOO,
Secretary of the Treasury.

THE FEDERAL INCOME TAX LAW

(TREASURY DECISION 1929.)

Income tax.

Supplemental regulations prescribing form of certificate to be attached to interest coupons in cases where the collecting agent's certificate is substituted for the certificate of the owners, when said owners are fiduciaries not claiming exemption at source.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., January 3, 1914.

Subject to the provisions of the regulations in T. D. 1903, dated November 28, 1913, collecting agents may substitute Form 1019a, properly filled in and numbered, for the certificate of the owner on Form 1019.

When collecting agents substitute their own certificates in lieu of owner's certificate on Form 1019, said substitute certificate shall be in substantially the following form:

ANALYSIS AND INTERPRETATION OF

(Form 1019a)

Form of certificate to be attached to interest coupons in cases where the collecting agent's certificate is substituted for the certificate of the owners.

(When owners are fiduciaries.)

(The owner's certificate, of which the following certificate is the counterpart, and bears the same number as this certificate, will be sent by the collecting agent direct to the Commissioner of Internal Revenue at Washington, as prescribed by regulations.)

No.....

I (we), do solemnly declare that the
(Name of collecting agent.)
owner of \$..... bonds of the.....,
(Name of debtor organization.)

from which were detached the accompanying interest coupons due
....., 191.., amounting to \$....., has filed
(Maturity.)

with me (us) a duly executed certificate filled up in accordance with Treasury Regulations of December 8, 1913, *Form 1019*, which certificate has been endorsed by me (us) as follows: "Owner's certificate No.....

....., 191..." that said
(Name of collecting agency.) (Date.)

certificate is executed by a fiduciary, and that the fiduciary, acting for and in the capacity as stated therein, did not claim any exemption from having the normal tax of 1 per cent withheld from said income by the debtor at the source; and I (we) do hereby promise and pledge myself (ourselves) to forward the above-described certificate executed by the owners as stated and dated....., 191..., to the Commissioner of Internal Revenue, at Washington, D. C., not later than the 20th day of next month, in accordance with Treasury Regulations.

Signature of collecting agent:.....

Date:....., 191... Address:.....

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved:

W. G. McADOO,
Secretary of the Treasury.

THE FEDERAL INCOME TAX LAW

(TREASURY DECISION 1934.)

Income tax.

Individuals whose net income from March 1 to December 31, 1913, both dates inclusive, is \$2,500 or more must make returns of annual net income for 1913.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., January 16, 1914.

Section 2, Act of October 3, 1913, provides that on or before the *first day of March, 1914*, and the first day of March in each year thereafter, a true and accurate return, under oath or affirmation, shall be made to the Collector of Internal Revenue by each person of lawful age, who may be subject to the tax imposed by this section, who has a net income of \$3,000 or over for the *taxable year*.

It is further provided that for the year ending December 31, 1913, the tax shall be computed on the net income accruing from March 1 to December 31, 1913, both dates inclusive, after deducting five-sixths only of the specific exemption and deductions allowable for an entire taxable year.

Since the return of annual net income for the year 1913, as applied to individuals, is for but *five-sixths* of the calendar year, and as the law provides that returns shall be made on the basis of *five-sixths* of the year, it is held that individuals whose net income is \$2,500 or more for the ten months constituting the taxable period of 1913, shall make returns of annual net income, in accordance with the general provisions of the law, covering the 1913 taxable period.

W. H. OSBORN,
Commissioner.

Approved:
W. G. McAdoo,
Secretary.

ANALYSIS AND INTERPRETATION OF

(TREASURY DECISION 1937.)

INCOME TAX

Corporations are not permitted to deduct from gross or net income for the year 1913 any portion of specific exemption authorized under corporation tax law (Section 38, Act of August 5, 1909.)

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

Washington, D. C., January 26, 1914.

Section 2 of the Act approved October 3, 1913, known as the Federal Income Tax Law, provides that all corporations, joint stock companies and all insurance companies, except those specifically enumerated as exempt, shall be subject to the normal tax imposed upon individuals—such tax to be levied, assessed and paid annually upon the entire net income arising or accruing from all sources during the preceding calendar year.

The provisions of this act apply to corporations which have or may have income arising or accruing on and after March 1, 1913. For the purpose of covering the liability of corporations to special excise tax for the months of January and February, 1913, the provisions of the corporation tax law (Section 38, Act of August 5, 1909) were extended, and in subsection S of the income tax law it is provided that the net income for these two months shall be ascertained in accordance with the provisions of subsection G of Section 2 of the Act of October 3, 1913,—that is, in the same manner as the net income for the remaining ten months of the year is ascertained.

In the subsection G just cited all items or charges against income, which constitute allowable deductions from gross income, are specifically set out. No provision, either express or implied, is made in this subsection or elsewhere in the act for the allowance of all or any portion of the specific exemption (\$5,000) allowed under the corporation tax law. As applied to the months of January and Feb-

THE FEDERAL INCOME TAX LAW

ruary, 1913, the income tax law in effect amends the corporation tax law by eliminating the specific exemption previously allowed, and provides that the tax for that period shall be measured by the net income ascertained according to the rule set out in subsection G of the later act. (See the 2d proviso in subsection S, Act of October 3, 1913.) The third proviso of subsection S also provides that "for the year 1913 it shall not be necessary to make more than one return and assessment for all taxes imposed * * * by way of income or special excise." The net income for both kinds of taxes and for both periods of the year being ascertained in exactly the same manner, but one return covering the entire calendar year 1913 is required. That return will show the entire net income ascertained in accordance with the provisions of the income tax law, and no specific exemption whatever being authorized, such net income as returned for the entire year will be the amount upon which the tax is computed.

ROBT. WILLIAMS, JR.,
Acting Commissioner.

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